

URBAN ACADEMY SOCIETY

Financial Statements

June 30, 2019

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To The Members of Urban Academy Society

Opinion

We have audited the financial statements of Urban Academy Society (the Society), which comprise the statement of financial position as at June 30, 2019 and the statements of earnings, net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Urban Academy Society as at June 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for non-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities of the Financial Statements* section of our report. We are independent of the Society in accordance with the ethical responsibilities that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no reasonable alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events of conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Society or business activity within the Society to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



CHARTERED PROFESSIONAL ACCOUNTANTS

Coquitlam, B.C.
September 18, 2019

2nd Floor, 566 Lougheed Hwy.
Coquitlam BC V3K 3S3

Office: 604.936.4377
Fax: 604.936.8376

risecpa.ca

URBAN ACADEMY SOCIETY

STATEMENT 1

STATEMENT OF EARNINGS

Year Ended June 30, 2019

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Revenue | | |
| Tuition, consolidated fees and registration | \$ 2,533,634 | \$ 1,777,822 |
| Government grant | 966,398 | 795,342 |
| Donations | 271,010 | 182,926 |
| Out of school care | 288,670 | 195,449 |
| Parent auxiliary | 105,968 | 89,900 |
| Special education | 5,175 | 16,197 |
| Interest income | 55,875 | 19,079 |
| Amortization of deferred capital contributions | 10,000 | - |
| | 4,236,730 | 3,076,715 |
| Expenses | | |
| Administration salaries and expenses | 604,478 | 505,088 |
| Advertising and promotion | 72,311 | 43,361 |
| Amortization | 274,694 | 59,034 |
| Bank charges and interest | 4,248 | 4,301 |
| Fundraising | 43,221 | 110,256 |
| Insurance | 20,940 | 14,686 |
| Interest on long term debt | 82,285 | 141,738 |
| Out of school care salaries and expenses | 168,699 | 158,385 |
| Parent auxiliary expenses | 147,582 | 105,822 |
| Professional development | 11,668 | 8,361 |
| Professional fees | 107,897 | 114,945 |
| Rent | 199,740 | 232,332 |
| Repairs and maintenance | 79,240 | 7,119 |
| Subcontracts | 146,012 | 112,550 |
| Supplies | 41,117 | 31,400 |
| Utilities | 36,886 | 14,647 |
| Teachers' wages and benefits | 1,603,331 | 1,247,654 |
| | 3,644,349 | 2,911,679 |
| Excess of revenue over expenses | 592,381 | 165,036 |
| Gain on sale of property - note 3 | 199,294 | 190,362 |
| Excess of revenue over expenses for the year | \$ 791,675 | \$ 355,398 |

The accompanying notes are an integral part of these financial statements.

URBAN ACADEMY SOCIETY

STATEMENT 2

STATEMENT OF NET ASSETS

Year Ended June 30, 2019

| | Invested in capital assets | Unrestricted | 2019 | 2018 |
|--|---------------------------------------|---------------------|---------------------|----------------|
| Net assets, beginning of year | \$ 288,913 | \$ 151,557 | \$ 440,470 | \$ 85,072 |
| Excess (deficiency) of revenue over expenditures for the year | (264,694) | 1,056,369 | 791,675 | 355,398 |
| Purchase of capital assets | 11,097,593 | (11,097,593) | - | - |
| Repayment of term loan | (400,000) | 400,000 | - | - |
| Financing for capital assets | (8,991,172) | 8,991,172 | - | - |
| Capital asset costs in accounts payable | (1,694,296) | 1,694,296 | - | - |
| Net assets, end of year | \$ 36,344 | \$ 1,195,801 | \$ 1,232,145 | 440,470 |

The accompanying notes are an integral part of these financial statements.

URBAN ACADEMY SOCIETY

STATEMENT 3

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Cash flows from (for) operating activities: | | |
| Excess of revenue over expenditures for the year | \$ 791,675 | \$ 355,398 |
| Items not requiring an outlay of cash | | |
| Amortization of deferred capital contributions | (10,000) | - |
| Amortization | 274,694 | 59,034 |
| Amortization of financing fee | 9,451 | 6,363 |
| Gain on disposal of property | (199,294) | (190,362) |
| | 866,526 | 230,433 |
| Changes in non-cash working capital | | |
| Increase in accounts receivable | (3,293) | (280) |
| Increase in government agencies recoverable | (72,207) | (148,784) |
| Decrease in prepaid expenses | 17,236 | 5,430 |
| Increase in accounts payable and accrued liabilities | 466,475 | 1,423,587 |
| Increase (decrease) in deferred contributions | (46,352) | 10,265 |
| Increase in deferred revenue | 653,696 | 633,865 |
| | 1,882,081 | 2,154,516 |
| Cash flows from (for) financing activities: | | |
| Proceeds from credit facility | 8,991,172 | 3,589,692 |
| Repayment of long-term debt | (400,000) | (200,000) |
| Repayment of liabilities associated with assets held for sale | - | (1,230,448) |
| Proceed from issuance of parent equity units | 1,328,000 | 1,372,000 |
| Redemption of parent equity units | (565,000) | (420,000) |
| | 9,354,172 | 3,111,244 |
| Cash flows from (for) investing activities: | | |
| Proceeds from disposal of assets held for sale | - | 2,790,000 |
| Purchase of capital assets | (11,097,593) | (92,396) |
| Property under development | - | (8,573,053) |
| | | |
| Increase (decrease) in cash | 138,660 | (609,689) |
| Cash, beginning of year | 3,809,425 | 4,419,114 |
| Cash, end of year | \$ 3,948,085 | \$ 3,809,425 |
| Cash consist of | | |
| Cash | \$ 3,406,266 | \$ 2,669,241 |
| Restricted cash | 541,819 | 1,140,184 |
| | \$ 3,948,085 | \$ 3,809,425 |

The accompanying notes are an integral part of these financial statements.

URBAN ACADEMY SOCIETY
STATEMENT OF FINANCIAL POSITION
 June 30, 2019

STATEMENT 4

| | 2019 | 2018 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current: | | |
| Cash | \$ 3,406,266 | \$ 2,669,241 |
| Restricted cash - note 2 | 541,819 | 1,140,184 |
| Accounts receivable | 18,674 | 15,381 |
| Government agencies recoverable | 238,737 | 166,530 |
| Prepaid expenses | 45,822 | 63,058 |
| | 4,251,318 | 4,054,394 |
| Capital assets - note 3 | 20,912,678 | 161,527 |
| Property under development - note 4 | - | 9,928,252 |
| | \$ 25,163,996 | \$ 14,144,173 |
| LIABILITIES AND NET ASSETS | | |
| Current: | | |
| Deferred gain on sale - note 3 | \$ - | \$ 199,294 |
| Credit facility - note 5 | 12,463,455 | 3,472,282 |
| Accounts payable and accrued liabilities | 2,141,833 | 1,675,358 |
| Deferred revenue - note 6 | 2,499,860 | 1,846,164 |
| Parent equity units due within one year - note 7 | 535,000 | 445,000 |
| Current portion of long term debt - note 8 | - | 400,000 |
| | 17,640,148 | 8,038,098 |
| Parent equity units - note 7 | 4,580,000 | 3,907,000 |
| Deferred contributions - note 9 | - | 46,352 |
| Long term debt - note 8 | 1,621,703 | 1,612,253 |
| Deferred capital contributions - note 10 | 90,000 | 100,000 |
| | 23,931,851 | 13,703,703 |
| Net assets | | |
| Invested in capital assets | 36,344 | 288,913 |
| Unrestricted net assets | 1,195,801 | 151,557 |
| | 1,232,145 | 440,470 |
| | \$ 25,163,996 | \$ 14,144,173 |

Employee Remuneration - note 11

On behalf of the board

_____ Date

_____ Date

The accompanying notes are an integral part of these financial statements.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2019

NATURE OF ORGANIZATION

The Urban Academy Society (the "Society") was incorporated under the Society Act of British Columbia on August 10, 2001 as a not-for-profit organization. The Society is a registered charity under the Income Tax Act and is exempt from income taxes under sections 149(1)(f) of the Act.

The Society was established to operate a non-denominational, co-educational school that is available to all members of the community.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations on a basis consistent with that of the prior year, and include the following accounting policies:

Revenue Recognition

The Society follows the deferral method of accounting for contributions.

The Society recognizes revenue from tuition, consolidated fees, out of school care and special education as earned over the school year. Tuition received in advance of the school year is recorded as deferred revenue and will be recognized as revenue in the period to which it relates. Registration and application fees and parent auxiliary revenue are recognized as revenue as received.

Government grants are for the operating expenses of the school and are subject to limitations based on a per-student operating cost formula. Government grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a basis and rate corresponding with the amortization expense of the related capital assets.

Contributed services

Volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value of the volunteer labour, the contributed services are not recognized in the financial statements.

Cash and Cash Equivalents

The policy of the Society is to disclose bank balances and temporary investments with a maturity of three months or less from the date of acquisition under cash and cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Capital Assets and Amortization

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. When a capital asset no longer contributes to the Society's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized using the following rates and methods:

| | | |
|-------------------------|----------|-------------------|
| Buildings | 40 Years | Straight-line |
| Computer equipment | 55% | Declining balance |
| Computer software | 100% | Declining balance |
| Furniture and equipment | 20% | Declining balance |
| Textbooks | 5 Years | Straight-line |

Leasehold improvements are being amortized on a straight-line basis over the term of the lease.

Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that cost may not be recoverable. Impairment exists when the carrying value of an asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value over its fair value.

Financial Instruments

Financial instruments are recorded at fair value on initial recognition.

The Society subsequently measures all its financial assets and financial liabilities at amortized cost. Changes in fair value are recognized in excess of revenue over expenses for the year.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Financial assets measured at amortized cost include cash, restricted cash, funds held in trust and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, credit facility, parent equity units and long term debt.

Impairment

Financial assets measured at cost will be tested for impairment when there are indicators of impairment. The amount of any identified impairment will be written down and recognized in excess of revenue over expenses. Any previously recognized impairment loss may be reversed to the extent of the improvement, either directly to this asset or by adjusting an allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of a reversal is recognized in excess of revenue over expenses.

Transaction costs

The Society recognizes its transaction costs in excess of revenue over expenses in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for non-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Estimates are used for, but are not limited to, the accounting for doubtful accounts, useful lives of capital assets, impairments and contingencies. Actual results may differ from those estimates.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2019

2. RESTRICTED CASH

The Society has designated the following amounts as restricted cash:

| | 2019 | 2018 |
|---|-------------------|---------------------|
| Cash raised from the issuance of parent equity units is restricted for the purpose of making property related payments and redeeming units in accordance with the parent equity unit offering memorandum. | \$ 511,500 | \$ 804,919 |
| HSBC Term Deposit for credit cards | 20,000 | - |
| Interest reserve fund with Envision Financial is restricted to pay the interest on the Society's construction loan | - | 188,913 |
| Cash in gaming account | 10,317 | - |
| Restricted donations are to be used for purposes that were specified by the donors. | - | 146,352 |
| | \$ 541,817 | \$ 1,140,184 |

There is an internal policy approved by the Board of Directors requiring the Society to maintain 10% of outstanding parent equity funds in restricted cash. The Society was in compliance of this policy as at June 30, 2019.

3. CAPITAL ASSETS

| | 2019 | | 2018 | |
|-------------------------|----------------------|-----------------------------|----------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | \$ 1,975,339 | \$ - | \$ 1,975,339 | \$ - |
| Buildings | 18,737,874 | 156,149 | 18,581,725 | - |
| Computer equipment | 211,320 | 172,463 | 38,857 | 45,965 |
| Furniture and equipment | 291,086 | 32,092 | 258,994 | 65,679 |
| Computer software | 7,204 | 7,204 | - | - |
| Textbooks | 125,476 | 67,713 | 57,763 | 18,610 |
| Leasehold improvements | - | - | - | 3,432 |
| | \$ 21,348,299 | \$ 435,621 | \$ 20,912,678 | \$ 133,686 |

On October 6, 2017, the Society sold the Robson property for \$3,100,000 and leased it back as an operating lease. As a result of the leaseback, profit arising on the sale was deferred and amortized in proportion to the rental payments over the lease term. As such a gain on sale of property of \$199,294 (2018 - \$190,362) has been recognized in the current year.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2019

4. PROPERTY UNDER DEVELOPMENT

Property under development represents costs incurred in connection with the acquisition and development of the Rousseau Street Property. The property was completed and available for use in March 2019, as such the costs associated with the property under development was added to building costs.

The Rousseau Street Property has been pledged as security as described in notes 6 and 10.

5. CREDIT FACILITY

The Society has a construction loan credit facility with First West Credit Union ("FWCU"), which is authorized to a limit of \$12,925,000 (2018 - \$12,925,000), and bears interest at FWCU's prime plus 1% per annum.

The FWCU construction loan credit facility will be secured by a commercial promissory note for \$12,925,000 (2018 - \$12,925,000), a first mortgage security over the Rousseau Street Property, an assignment of rent and insurance, a general security agreement over all present and after acquired personal property of the Society, a first assignment of FWCU shares and deposits for a minimum of \$615,000 and an environment indemnity agreement.

At year-end, the Society has \$12,463,454 (2018 - \$3,472,282) drawn against its construction loan credit facility.

Subsequent to year end, the Society has converted the credit facility with FWCU to a term commercial mortgage in the amount of \$13,425,000 amortized over 25 years. This mortgage will bear interest at 2.24% plus the Government of Canada benchmark bond rate for the term specified with monthly payments of \$68,294. The new facility agreement is secured against the 466 Rousseau St, New Westminster, BC property and a commercial promissory note for \$13,425,000.

6. DEFERRED REVENUE

Deferred revenue represents tuition fees and other fees received as at the year end but relate to the subsequent school year.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2019

7. PARENT EQUITY UNITS

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Non-interest bearing parent equity units are repayable 120 days after receipt of written notice of a student's withdrawal from the school. As of June 30, 2019, a total of 271 (2018 - 243) units are outstanding. The per unit amount is \$5,000 for Junior Kindergarten students and \$20,000 for all other students. | \$ 5,115,000 | \$ 4,352,000 |
| Less: current portion | 535,000 | 445,000 |
| | <u>\$ 4,580,000</u> | <u>\$ 3,907,000</u> |

The current portion of parent equity units represents the amounts expected to be repaid in respect of students who have provided written notice of their withdrawal from the school.

The Society has determined that, other than the current portion of parent equity units identified for repayment, it is unlikely that the remaining parent equity units will be repaid within the next fiscal year, consequently, they have been classified as a non-current liability in the financial statements.

8. LONG-TERM DEBT

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Term loan bearing interest at 9% per annum. The loan was fully repaid on September 30, 2018. | \$ - | \$ 400,000 |
| Series A, 4% secured community mortgage bonds issued on February 16, 2015 and full principal payment of \$1,641,411 due February 16, 2022. \$32,828 of deferred interest is included in accounts payable and accrued liabilities. | 1,641,411 | 1,641,411 |
| | 1,641,411 | 2,041,411 |
| Less: current portion | - | (400,000) |
| Less: mortgage fees paid | (19,707) | (29,158) |
| | <u>\$ 1,621,704</u> | <u>\$ 1,612,253</u> |

The community mortgage bonds are secured by the Rousseau Street Property in a subordinate position to FWCU.

The aggregate amount of principal payments required in each of the next three years on the above indebtedness is as follows:

| | |
|------|---------------------|
| 2022 | \$ <u>1,641,111</u> |
|------|---------------------|

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2019

9. DEFERRED CONTRIBUTIONS

Deferred contributions represent donations received by the Society that have been externally restricted to various program expenses. The programs to which these restricted donations have been made include Wish List, Academics, Technology, Library, Art, Music, Drama, Athletics, Learning Assistance, Bursaries and Tuition Assistance, After School Programs, Board Development, and Facilities. Donors designate the program that they want to contribute to when they make the donation.

At the beginning of the year, the Society held \$146,352 designated for these special programs. During the year, the Society received \$23,736 (2018 - \$22,050) of donations that have been restricted. The expenses related to these restricted donations totaled \$70,088 (2018 - \$11,785). Funds used for furniture and equipment purchases totaled \$100,000 (2018 - \$nil). As of June 30, 2019 there are no deferred contributions outstanding.

10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations received to use towards the construction and furnishing of the property under development. The deferred contribution was fully used during the year on furniture and equipment and is being amortized into income over the useful life of the assets.

11. EMPLOYEE REMUNERATION

During the year, one employee received remuneration over \$75,000. The total amount paid to this person was \$160,800 (2018 - \$173,333).
